

September 28, 2012

To: Executive Board

Subject: **Fiscal Year 2012 Financial and Compliance Audit Results**

Recommendation

Receive and file the Fiscal Year 2012 financial and compliance audit results.

Analysis

The accounting firm of Lance, Soll and Lunghard LLP has completed their audit of Foothill Transit's balance sheet as of June 30, 2012 and the related statements of revenues, expenses, and cash flow. The audit was conducted in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. This audit was performed for the purpose of forming an opinion regarding Foothill Transit's financial statements.

In addition to the financial audit, Lance, Soll and Lunghard LLP has completed an audit of Foothill Transit's compliance with the Single Audit (Office of Management and Budget Circular [OMB] A-133) guidelines mandated by our receipt of federal funds, the Transportation Development Act, and the rules and regulations of the Los Angeles County Metropolitan Authority. The purpose of this audit is to determine compliance with all laws, regulations, contracts, and grants, including the Transportation Development Act as summarized in the "Guidelines on Auditing for Conformance" which is published by the Southern California Association of Governments.

Lance, Soll and Lunghard LLP will present a review of the audit results and present the final Independent Financial and Single Audit Reports to the Executive Board on Friday, September 28, 2011. A copy of the Financial Report is attached for your review.

For the tenth year in a row, Foothill Transit has received a clean audit. The Auditors did not recommend and/or require any adjustments to Foothill Transit's financial statements to properly reflect the financial position and changes in its financial position for the fiscal year ended June 30, 2012.

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Fiscal year 2012 Financial and Compliance Audit Results
Page 2

A summary of the financial activities are as follows:

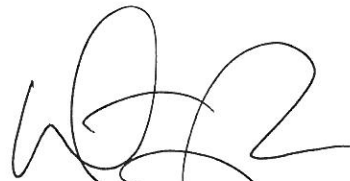
Summary of Financial Activity for Fiscal Year Ended June 30, 2012	
Total farebox revenue	18,496,259
Other revenue	<u>1,089,225</u>
Total operating revenues	<u>19,585,484</u>
Operating Expense before depreciation	62,614,618
Depreciation expense	<u>17,632,250</u>
Total operating expense	<u>80,246,868</u>
Operating loss	<u>(60,661,384)</u>
Non-operating revenue	43,206,876
Other income (expense) net	<u>(375,067)</u>
Loss before capital contributions	<u>(17,829,575)</u>
Capital contributions	<u>17,269,306</u>
Change in net assets	<u>(560,269)</u>
Net assets at beginning of year	<u>177,318,083</u>
Net assets at end of year	<u><u>176,757,814</u></u>
Farebox recovery ratio	29.54%

Foothill Transit's working capital (current assets less current liabilities); a measure of Foothill Transit's liquidity was \$66.4 million, increasing approximately \$10.5 million since last year. This is an indicator of Foothill Transit's ability to respond to an unexpected situation requiring immediate cash. A copy of the audit report is attached for your review (**Attachment A**).

Sincerely,



Richard Hasenohrl
Director of Finance



Doran J. Barnes
Executive Director

Attachment



CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA

September 19, 2012

To the Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

We have audited the financial statements of the business-type activities information of the Foothill Transit Authority (the Authority) for the year ended June 30, 2012, and have issued our report thereon dated September 19, 2012. Professional standards require that we provide you with the following information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 11, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2012. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No misstatements were found.



To the Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 19, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America and *Government Auditing Standards*, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

The following new Governmental Accounting Standards Board (GASB) pronouncements were effective for fiscal year 2011-2012 audit:

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* – The Authority was not affected by this pronouncement at this time.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53* – The Authority was not affected by this pronouncement at this time.



To the Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

The following Governmental Accounting Standards Board (GASB) pronouncements are effective in your next fiscal year 2012-2013 audit and should be reviewed for proper implementation by management:

GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements

GASB Statement No. 61, The Financial Reporting Entity: Omnibus-an amendment of GASB Statement 14 and 34

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

This information is intended solely for the use of the members of the Board of Directors or individual(s) charged with governance and management of the Authority, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Lane, Soll & Loughard, LLP

Audit Difference Evaluation Form

Name of Governmental Unit: Foothill Transit Authority

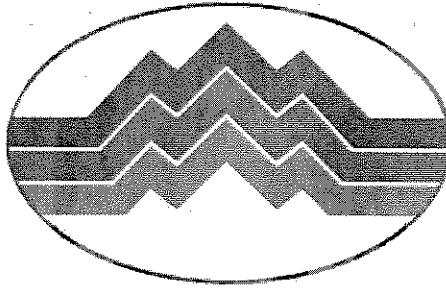
Date of Combined Balance Sheet: June 30, 2012

Opinion Unit, Fund Type or Fund: Enterprise Funds

Instructions

This form should be used to accumulate known audit differences by opinion unit, fund type or fund detected by non-sampling substantive tests (including differences in accounting estimates) and projected audit differences from substantive tests that used sampling. The current year effect of prior year uncorrected audit differences should also be summarized at the bottom of the form. This form should not include normal closing entries. At the end of the audit, the auditor should evaluate all uncorrected audit differences individually and in the aggregate, in the context of individual opinion and conclude whether they materially misstate the financial statement of an opinion unit. Thus, a separate Audit Difference Evaluation Form should be maintained for each opinion unit, fund type or fund.

Description (Nature) of Audit Difference	Amount
None noted	\$ -
Total	-
Less Audit Adjustments Subsequently Booked	-
Net Unadjusted Audit Differences - this year	-
Effect of Net Unadjusted Audit Difference - prior year	-
Net Audit Differences	\$ -



Foothill Transit

GOING GOOD PLACES

West Covina, California

Comprehensive Annual
Financial Report
For the Fiscal Years Ended
June 30, 2012 and 2011

Prepared by:
Finance Department

Richard Hasenohrl
Finance Director

FOOTHILL TRANSIT
(A JOINT POWERS AUTHORITY)

JUNE 30, 2012 AND 2011

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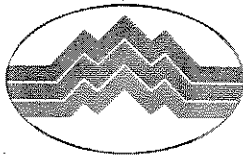
FOOTHILL TRANSIT
(A JOINT POWERS AUTHORITY)

JUNE 30, 2012 AND 2011

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INTRODUCTORY SECTION



Foothill Transit

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Executive Board Memorandum

September 28, 2012

To: Executive Board

Subject: **Fiscal Year 2011-12 COMPREHENSIVE ANNUAL FINANCIAL REPORT**

It is my pleasure to present the Comprehensive Annual Financial Report of Foothill Transit for the fiscal year ended June 30, 2012. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with Foothill Transit. To the best of my knowledge and belief, the information presented is accurate in all material aspects and includes all disclosures necessary to enable the reader to gain an understanding of Foothill Transit's financial activities.

In addition to the financial audit, Foothill Transit is required to conduct an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments and Non-Profit Organizations. Information related to the single audit, including the schedule of expenditures of federal awards, findings and recommendations, and auditors' reports on internal control structure and compliance with applicable laws and regulations are included with this report.

Independent Audit. The accounting firm of Lance, Soll & Lunghard, LLP was selected to perform an annual independent audit of Foothill Transit's financial statements. The goal of the independent audit was to provide reasonable assurance that Foothill Transit's financial statements for the fiscal year ended June 30, 2012, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial presentation. Based upon the audit, the independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that Foothill Transit's financial statements for fiscal year ended June 30, 2012, are fairly presented in conformity with generally accepted accounting principles (GAAP). The audit also was designed to meet the requirements of the Federal Single Audit Act of 1984 and related OBM Circular A-133. The auditor's report on the basic financial statements and schedules including reports specifically related to the single audit are included in this document.

Management's Representations. This report consists of management representations concerning Foothill Transit's finances. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, Foothill Transit's management has established a comprehensive internal control framework designed to ensure that the assets of Foothill Transit are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefit likely to be derived; and (2) the valuation of the costs and benefits requires estimates and judgments by management. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.



Foothill Transit

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Executive Board Memorandum –09/28/12
Fiscal Year 2011-12 Comprehensive Annual Financial Report

Single Audit. As a recipient of federal and state assistance, Foothill Transit is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the staff of Foothill Transit.

As part of Foothill Transit's single audit, described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that Foothill Transit has complied with applicable laws and regulations. The results of Foothill Transit's single audit for the fiscal year ended June 30, 2012 provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

Management's Discussion and Analysis. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A that begins on page 3, and should be read in conjunction with it.

Reporting Entity. Foothill Transit, a joint powers authority of 22 cities and the County of Los Angeles, is a public transit provider located in the San Gabriel and Pomona Valleys in Los Angeles County. Foothill Transit operates a fleet of 314 buses transporting 13.9 million passengers with 9.9 million vehicle service miles. The entire fleet is equipped with bicycle racks and is wheelchair accessible and 92.7 percent of the buses are powered by either compressed natural gas (CNG) or electricity. Foothill Transit's most unique feature is that it has no employees – both its management and operations are contracted to private enterprises.

Risk Management. Foothill Transit protects itself against adverse consequences of material loss through a program of risk transfer. This includes the purchase of liability insurance and contractual agreements which require the private enterprises furnishing management and operations service to maintain certain levels of liability coverage. Contractual agreements with the private enterprises also require that Foothill Transit be held harmless for claims arising from their services.

Cash Management. Cash temporarily idle during the year was invested primarily in the Local Agency Investment Fund, Certificates of Deposit, US Treasury Notes and in money market funds.

Foothill Transit's investment transactions are conducted in conformance with internal investment policies and the State of California Government Code. The Executive Board has assigned the responsibility for investing to the Finance Director.

Local Economy. Foothill Transit provides service in the San Gabriel and Pomona Valleys located in the Los Angeles basin. It has been three years since the Los Angeles basin experienced the upheaval of the sub-prime loans which led to a depressed housing market affecting the construction, financial and housing related products sectors. The depressed housing market is beginning to show signs of improvement, ever so slight with prices creeping upward. Other segments of the economy, especially high tech and tourism sectors are experiencing improvement. Other factors affecting many segments of the economy experiencing drops in sales are attributed to the State's budget crisis and double digit unemployment, which while high, is trending downward. The effects of the State's budget crisis have affected other agencies dependent on state revenues including schools, local governments and transit agencies. Government budgets are under extreme stress and may be faced with another round of job and program cuts related to decreased revenues. The largest increases in unemployment have come from the governmental sector with the highest unemployment in the Sacramento area. Home construction is beginning to turn the corner and home sales have been trending upward for the last seven months. With the decline in home prices and the lowest mortgage rates in decades, buyers are finding it easier to meet lending requirements. Today we have a world with too much debt at international,



Foothill Transit

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Executive Board Memorandum –09/28/12
Fiscal Year 2011-12 Comprehensive Annual Financial Report

national, state, local government and individual levels. The range of this debt includes countries like Greece facing bankruptcy to individual student loan debt. While the existence of this debt may not be by itself a bad thing, the resources required to service these debts reduces resource for growing the economy. Agriculture has shown improvements in revenues and employment, with agriculture products one of California's largest exports to the rest of the world. Businesses continue to defer investment spending because of the uncertainty of the economy while US exports have increased fueled by China's demand and the weaker dollar. Consumer spending for technology products like computers, e-readers, and cell phones mushroomed especially for high tech manufacturers (semiconductors). Consumers spending in all segments of the economy are necessary for a robust recovery. Consumers are spending less and looking for bargains affecting even high-end stores, however taxable sales have continued to increased and will likely continue into 2013.

The entertainment industry continues to recover. During 2012 the industry experienced a rebound with more motion pictures, television pilots, and commercials being filmed.

The tourism and hospitality industry has improved over the last two years. Occupancy rates have increased approximately 3% with room rate increasing 2%-6% leading to increases in tourism and hospitality related jobs.

The economy continues very moderate overall growth, which is an indication the recession is over, however at its current rate it will require several years (2014) before the economy is at pre-recession levels. The moderate growth, while indicating an improving economy could easily be derailed creating a double dipped recession, however most economists believe the economy is not going to stall. The worst may be over in the private sector; however the public sector typically lags two years behind. The state's budget problems continue to affect California's economic recovery. The Governor's has proposed a tax increase to be approved by the voters, but if not passed, will trigger additional budget cuts primarily focused on education.

California's state businesses continue to experience uncertainty in today's adverse business climate. Businesses are doing more with less improving productivity, but are reluctant to make capital investments or hire full time employees, even though needs exist.

Personal income in California is outpacing the country. This is owed in part to the types of jobs in California, a higher percentage with salaries in the \$50,000 per year category. The recent growth (2.0%) in personal income is not producing corresponding increases in consumer demand which was offset by the 3% increase in CPI primarily because of fuel costs. Increased fuel costs have affected consumer's basis needs, i.e. food, electricity, clothing, commuting, and eliminating the increase in personal income.

The FY 2012 budget assumed that the moderate growth experienced in FY 2011 would continue throughout 2012 and into 2013. With the State's budget problems and a sluggish economy the likelihood of any substantial improvement is more than two years away. UCLA has forecasted the weakest economic recovery of the postwar era.

The majority of Foothill Transit's funding is provided from Propositions A, C and Measure R, local sales taxes. While consumers still feel somewhat tentative about their economic situation, their outlook has improved prompting them to increase spending for discretionary goods. While increased spending will put upward pressure on the collection of sales taxes, the Fiscal year 2012 budget was prepared with revenues, service, and fares at current levels to balance the budget.

New capital acquisitions and/or construction projects and those carried forward from the previous year include Park and Ride parking structure(s), new replacement buses and the purchase of Zero Emission



Foothill Transit

GOING GOOD PLACES

Executive Board Memorandum –09/28/12
Fiscal Year 2011-12 Comprehensive Annual Financial Report

electric buses. The Park and Ride Facility (facilities) will allow greater utilization of current bus service potentially increasing fare revenue. The purchases of replacement buses will reduce operational expenses eliminating major repairs. The zero emission electric buses will reduce maintenance costs and eliminate all emission currently attributed to compressed natural gas buses. Sufficient funding (grants) has been dedicated for the completion of these projects

Future capital projects may be limited because of the unavailability of the needed local matching funding required to utilize federal grants. While sufficient local funding will be available for operations, grant restrictions may limit the availability of these funds for capital projects. In the event local funding is not available, Foothill Transit will need to reallocate capital funding.

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Foothill Transit for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. This was the eighth consecutive year that Foothill Transit has received this prestigious award. This certificate of award is the highest form of recognition for excellence in state and local government financial reporting.

In order to receive this award, Foothill Transit must publish an easily readable and well organized comprehensive financial report whose content conforms to the program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement for Excellence in Financial Reporting is valid for a one year period only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and are submitting it to determine eligibility for another certificate.

Acknowledgments. The preparation of this report would not have been possible without the efficient and dedicated service of the entire Finance Department. We wish to express our sincere appreciation for the hard work and long hours that contributed to the preparation of this report. Appreciation is also extended to the Executive Board and the various departments for their cooperation and dedicated service that made it possible to produce a report of the highest standards.

Sincerely,

Richard Hasenohrl
Director of Finance

Doran J. Barnes
Executive Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Foothill Transit
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

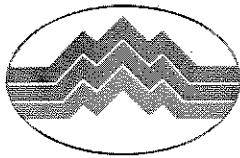


Linda C. Davidson

President

Jeffrey R. Egan

Executive Director

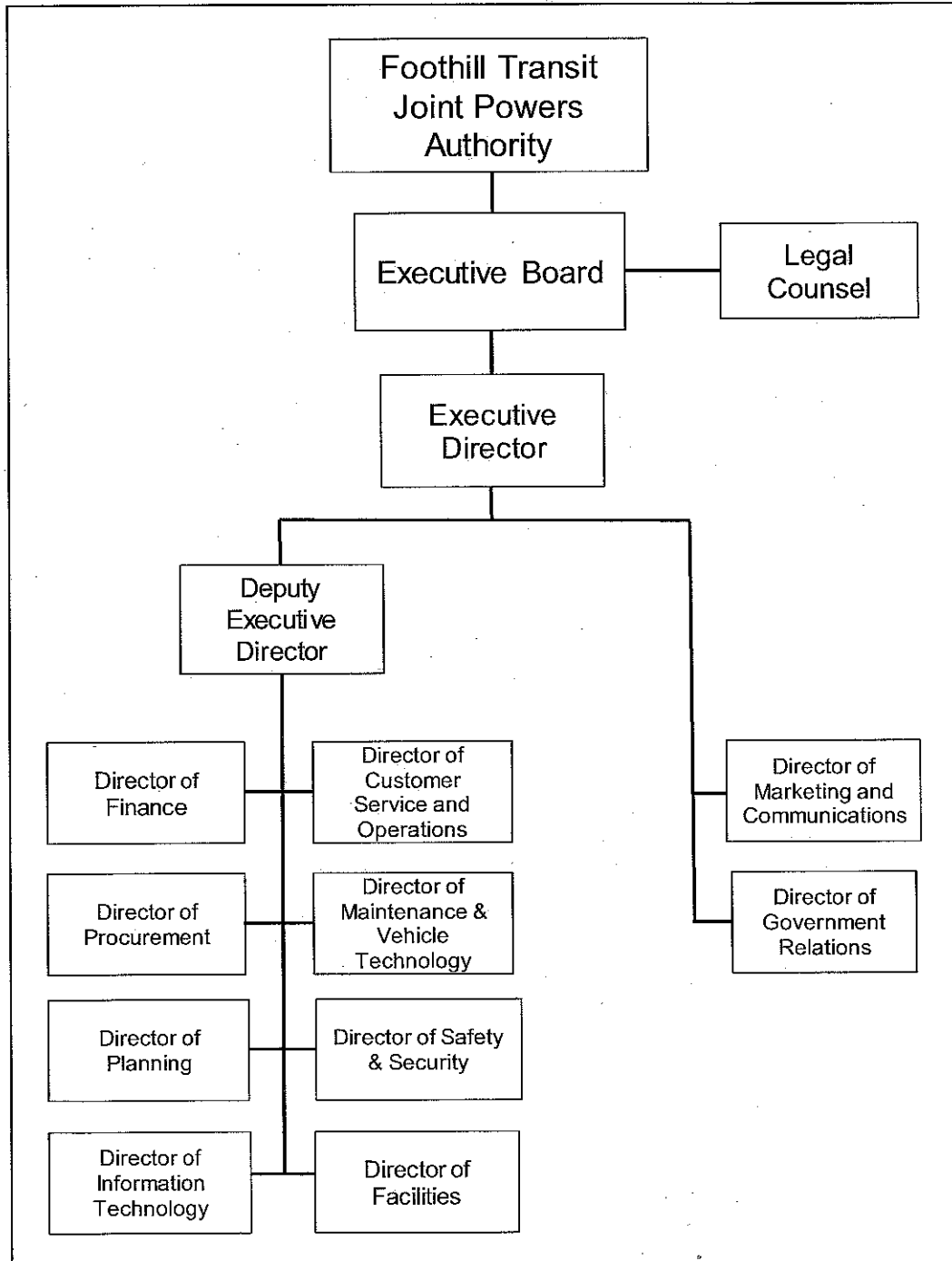


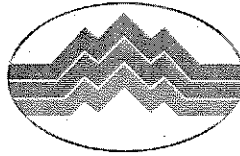
Foothill Transit

GOING GOOD PLACES

(A Joint Powers Authority)

Organizational Chart





Foothill Transit

GOING GOOD PLACES

(A Joint Powers Authority)

Executive Board

Patricia Wallach
Chair

Doug Tessitor
Vice Chair

Paula Lantz
Treasurer/
Auditor Controller

Margret McAustin
Member

Doug Tessitor
Member

Member Agencies

Arcadia
Bradbury
Diamond Bar
Glendora
La Puente
Monrovia
San Dimas
Walnut

Azusa
Claremont
Duarte
Industry
La Verne
Pasadena
South El Monte

Baldwin Park
Covina
El Monte
Irwindale
Los Angeles County
Pomona
Temple City
West Covina

Senior Staff

Doran Barnes
Executive Director

Kevin McDonald
Deputy Executive Director

Felicia Friesema
Director of Marketing and
Communications

(Vacant)
Director of Customer Service
and Operations

Joseph Raquel
Director of Information
Technology

Roland Cordero
Director of Facilities

LaShawn Gillespie
Director of Planning

Richard Hasenohrl
Director of Finance

Jaime Becerra
Director of
Safety and Security

David Reyno
Director of Government
Relations

Rashidi Barnes
Director of
Procurement

(Vacant)
Director of Maintenance and
Vehicle Technology

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FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
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- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Foothill Transit (A Joint Powers Authority)

We have audited the accompanying financial statements of business-type activities information of the Foothill Transit Authority, West Covina, California (the Authority) as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Authority's 2011 financial statements and, in our report dated September 14, 2011; we expressed unqualified opinions on the respective financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities information of the Authority, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for



To the Board of Directors
Foothill Transit (A Joint Powers Authority)

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profits Organizations, and is also not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Lance, Soll & Loughard, LLP

Brea, California
September 19, 2012

FOOTHILL TRANSIT
(A Joint Powers Authority)

Management's Discussion and Analysis
June 30, 2012

The following section of the annual financial report of Foothill Transit includes an overview and analysis of Foothill Transit's financial position and activities for the year ended June 30, 2012. This discussion and analysis should be considered in conjunction with the basic financial statements which it accompanies. These statements are the responsibility of the management of Foothill Transit.

Introduction to the Basic Financial Statements

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*. Foothill Transit presents its basic financial statements using the economic resources measurement focus and accrual basis of accounting. As a special purpose government engaged in business-type activity, Foothill Transit's basic financial statements include a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. Notes to the basic financial statements and required supplementary information, including this section, support these statements. All sections must be considered together to obtain a complete understanding of the financial position and results of operations of Foothill Transit.

Statement of Net Assets: The Statement of Net Assets includes all assets and liabilities of Foothill Transit, with the difference between the two reported as net assets. Assets and liabilities are reported at their book value, on an accrual basis, as of June 30, 2012 and 2011. This statement also identifies major categories of restrictions on the net assets of Foothill Transit.

Statement of Revenues, Expenses, and Changes in Net Assets: The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred by Foothill Transit during the years ended June 30, 2012 and 2011, on an accrual basis.

Statement of Cash Flows: The Statement of Cash Flows presents the changes in Foothill Transit's cash and cash equivalents for the years ended June 30, 2012 and 2011, summarized by operating, capital and noncapital financing, and investing activities. The statement is prepared using the direct method of reporting cash flows and, therefore, presents gross rather than net amounts for the years' activities.

Foothill Transit's basic financial statements can be found on pages 9 - 12 of this report.

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 13 - 27 of this report.

FINANCIAL HIGHLIGHTS

- During fiscal year 2011–2012, Foothill Transit's net assets decreased \$560,269 (0.32%) from the end of the previous year that included the disposal of \$107,061 and acquisition of \$17.1 million of capital assets, exclusive of depreciation. The capital additions were funded by federal, state, and local grants.
- In fiscal year 2011–2012, operating expenses before depreciation increased \$2.8 million (4.66%) over the previous year. This increase was attributed primarily to increases for transit operations, \$2.2 million (5.06%) and management services contract expenditures, \$843,645 (13.08%) experienced during the year. During the fiscal year ended June 30, 2012, fuel costs decreased 7.4 percent or \$470,422 when compared to the previous fiscal year. The decrease in fuel was attributable to reduced cost of crude oil.

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FINANCIAL HIGHLIGHTS (Continued)

- Foothill Transit's assets exceeded its liabilities at June 30, 2012, by \$176.8 million (net assets). Of this amount, \$152.0 million represents Foothill Transit's investment in capital assets, net of related debt, and the remainder, \$24.8 million is restricted for future capital acquisitions.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Condensed Summary of Net Assets

	2012	2011	Change
Current assets	\$ 75,412,106	\$ 64,615,121	\$ 10,796,985
Capital assets, net	153,006,109	153,570,751	(564,642)
Total assets	228,418,215	218,185,872	10,232,343
Current liabilities	9,036,205	8,679,896	356,309
Noncurrent liabilities	42,624,196	32,187,893	10,436,303
Total liabilities	51,660,401	40,867,789	10,792,612
Net assets:			
Invested in capital assets, net of related debt	152,006,109	152,768,075	(761,966)
Restricted	24,751,705	24,550,008	201,697
Total net assets	\$ 176,757,814	\$ 177,318,083	\$ (560,269)

As mentioned earlier, net assets can serve as an indicator of financial health. Foothill Transit's net assets exceeded liabilities by \$176,757,814 as of June 30, 2012. Most of this amount or \$152,006,109 relates to Foothill Transit's investment in capital assets (property, plant, and equipment) net of related debt (capital assets). Foothill Transit uses these capital assets to provide transportation services to the San Gabriel Valley; consequently, these assets are not available for future spending. These capital assets were procured with federal, state, and local grant funds. The remaining restricted net assets totaled \$24,751,704 and represent amounts that are restricted by law or contractual arrangement for specific purposes.

Foothill Transit's net assets decreased approximately \$560,269 during fiscal year 2011-2012. This decrease is primarily the depreciation of capital assets funded with capital grant revenues that exceeded capital purchases.

FOOTHILL TRANSIT
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Condensed Summary of Revenues, Expenditures and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Operating revenues:			
Farebox and bus pass	\$ 18,496,259	\$ 17,238,311	\$ 1,257,948
Special services	204,227	386,031	(181,804)
Dial-A-Ride	729,537	667,633	61,904
Liquidated damages	97,100	124,200	(27,100)
Other revenue	58,361	90,923	(32,562)
Total operating revenues	<u>19,585,484</u>	<u>18,507,098</u>	<u>1,078,386</u>
Nonoperating revenues:			
Proposition A revenue	17,211,004	15,397,838	1,813,166
Proposition C revenue	3,516,039	3,385,586	130,453
FTA Section 5307	761,015	4,239,628	(3,478,613)
FTA ARRA	-	397,988	(397,988)
AQMD	-	7,886	(7,886)
STA operations	3,295,652	5,280,754	(1,985,102)
Measure R	8,779,338	7,410,667	1,368,671
Transportation Development Act	9,643,828	5,268,157	4,375,671
Total nonoperating revenues	<u>43,206,876</u>	<u>41,388,504</u>	<u>1,818,372</u>
Other revenues:			
Interest Revenue (Expense)	(122,187)	36,145	(158,332)
Property Management	(256,034)	(209,902)	(46,132)
Gain (Loss) on disposal of assets	3,154	105,429	(102,275)
Total other revenues	<u>(375,067)</u>	<u>(68,328)</u>	<u>(306,739)</u>
Total revenues	<u>\$ 62,417,293</u>	<u>\$ 59,827,274</u>	<u>\$ 2,590,019</u>
Operating expenses:			
Transit operations	\$ 44,700,314	\$ 42,546,290	\$ 2,154,024
Fuel costs	5,899,524	6,369,946	(470,422)
Management service contract	7,293,707	6,450,062	843,645
Special services	131,384	224,755	(93,371)
Dial-A-Ride	718,033	656,265	61,768
Professional services	1,264,497	1,113,036	151,461
Advertising	318,188	216,422	101,766
General and administrative	2,288,971	2,250,497	38,474
Depreciation	17,632,250	17,509,060	123,190
Total operating expenses	<u>80,246,868</u>	<u>77,336,333</u>	<u>2,910,535</u>
Loss before capital contributions	<u>(17,829,575)</u>	<u>(17,509,059)</u>	<u>(320,516)</u>

Continued on next page

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Continued from previous page	<u>2012</u>	<u>2011</u>	<u>Change</u>
Loss before capital contributions	<u>(17,829,575)</u>	<u>(17,509,059)</u>	<u>(320,516)</u>
Capital contributions:			
Proposition C	5,970,133	2,734,459	3,235,674
Federal grants	10,618,400	13,049,044	(2,430,644)
AQMD	193,865	-	193,865
Proposition 1B	120,998	266,874	(145,876)
Transportation Development Act	113,824	637,113	(523,289)
Other	252,086	-	252,086
Total capital contributions	<u>17,269,306</u>	<u>16,687,490</u>	<u>581,816</u>
Change in net assets	<u>(560,269)</u>	<u>(821,569)</u>	<u>261,300</u>
Net Assets at beginning of year	<u>177,318,083</u>	<u>178,139,652</u>	<u>(821,569)</u>
Net Assets at end of year	<u>\$ 176,757,814</u>	<u>\$ 177,318,083</u>	<u>\$ (560,269)</u>

Revenues

Operating revenues increased \$1.1 million or 5.8%. This increase reflects a slight increase in ridership, improved revenue collections and changes in ridership patterns utilizing our higher priced express service. Nonoperating grant revenues increased \$1.8 million and capital grant revenues increased \$581,816. These grant revenues subsidized Foothill Transit's operating and capital expenses. Since Foothill Transit requires subsidies to fund operating and capital expenditures in excess of operating revenues, any increases or decreases in unfunded expenditures will also require an increase or decrease in related grant funding. The increase in capital contributions was directly related to the increase in the acquisition of capital assets. During the previous fiscal year Foothill Transit capital acquisitions were \$16.8 million.

Expense

Total operating expenses before depreciation increased \$2.8 million (4.7%). Fuel cost decreased \$470,422 and transit operations cost increased \$2.2 million. The cost for compress natural gas (CNG) fuel has remained stable while diesel fuel prices have fluctuated throughout the year. With a bus fleet that is 92.7% CNG and electric, Foothill Transit had the ability to alternate between the uses of CNG, electric or diesel buses to minimize costs. The transit operations expense increase of \$2.2 million or 5.1% reflects the built-in CPI contractual increases and a new contract executed at our Pomona Facility for operations, which reflect industry increases not previously recognized in CIP adjustments. Depreciation expense increased \$123,190 (0.7%). This increase in depreciation is attributed to the age of the bus fleet.

Capital Assets

At the end of the current fiscal year, Foothill Transit had \$153,006,109 (net of accumulated depreciation) invested in capital assets. This was a 0.37% increase over the previous fiscal year. These assets include land, facilities, transit buses, other operating equipment, vehicles, furniture and fixtures listed on the next page.

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	<u>2012</u>	<u>2011</u>
Land	\$ 10,132,713	\$ 10,132,713
Construction in progress	2,695,539	3,315,766
Facilities	56,213,155	54,653,134
Transit buses	67,077,461	70,639,457
Other operating equipment	16,571,725	14,291,836
Vehicles	234,279	375,071
Furniture and fixtures	81,237	162,774
Total capital assets, net of accumulated depreciation	<u>\$ 153,006,109</u>	<u>\$ 153,570,751</u>

All assets have been purchased with federal, state, or local grants awarded to Foothill Transit. Significant capital projects during fiscal years 2012 and 2011 include the following:

Fiscal year 2012:

- Bus Fleet Expansion (\$8.6 million)
- Solar Power Projects - Arcadia & Pomona (\$1.6 million)
- Park and Ride Facilities (\$945,400)
- Fare Collection Equipment (\$618,000)
- Bus and Facility Surveillance/Safety Equipment (\$924,200)
- Bus Cooling System retrofit (\$1.3 million)

Fiscal year 2011:

- Ecoliner bus project (three electric buses on line 291, \$6.5 million)
- Elevator Rehabilitation - Administration Office (\$1 million)
- Solar Power Projects - Arcadia & Pomona (\$4 million)

More detailed information about Foothill Transit's capital assets can be found in Note 6 in the accompanying notes to basic financial statements.

LONG TERM DEBT

At the end of the current fiscal year Foothill Transit had no long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The budget for fiscal year 2012 assumes economic conditions will remain unchanged, neither an improvement nor decline for the Los Angeles basin as discussed on page iii. With many sectors of the economy experiencing uncertainty, it is difficult to pin point when the economy will improve. Most experts agree improvements in the economy, (i.e. increases in employment, increasing sales) will begin to occur two-three years after the downturn in economy hits bottom, however with many world economies teetering on bankruptcy it is very difficult to pin point when the economy will hit bottom. Foothill Transit's single largest revenue source, sales tax, representing more than 60 percent of the fiscal year revenue is dependent on consumer demand which is increasing, however, at a very slow pace. The main economic factors affecting Foothill Transit's financial capacity to deliver transportation programs and projects include:

- Economic conditions influencing local sales tax revenue
- Capital grant revenue availability
- Fuel and operation costs

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These factors were considered when preparing the Foothill Transit fiscal year 2013 budget. A review of current fares and service levels were completed during fiscal year 2012 to determine if adjustments were needed to prepare a balanced budget for fiscal year 2013. While no adjustments were indicated, the adjustments implemented in FY 2011 (service levels adjustments and a fare increase) have served Foothill Transit well allowing for the preparation of a balanced FY 2013 budget without utilizing available reserves.

FURTHER INFORMATION

This report has been designed to provide a general overview of Foothill Transit's financial condition and related issues for those with an interest in Foothill Transit's finances. Inquiries should be directed to the Finance Director, 100 South Vincent Avenue, Suite 200, West Covina, CA 91790.

FOOTHILL TRANSIT
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Statements of Net Assets

June 30, 2012 and 2011

Assets	2012	2011
Current assets:		
Cash and investments	\$ 66,840,828	\$ 59,402,379
Due from other governmental agencies	7,590,561	4,295,705
Receivables	911,412	752,200
Interest receivable	4,455	5,929
Prepaid items	64,850	158,908
Total current assets	<u>75,412,106</u>	<u>64,615,121</u>
Noncurrent assets:		
Capital assets	282,451,594	265,433,705
Less accumulated depreciation and amortization	<u>(129,445,485)</u>	<u>(111,862,954)</u>
Total noncurrent assets	<u>153,006,109</u>	<u>153,570,751</u>
Total assets	<u><u>\$ 228,418,215</u></u>	<u><u>\$ 218,185,872</u></u>
 Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,036,205	\$ 7,877,220
Lease payable, current	<u>1,000,000</u>	<u>802,676</u>
Total current liabilities	<u>9,036,205</u>	<u>8,679,896</u>
Noncurrent liabilities:		
Unearned revenue	<u>42,624,196</u>	<u>32,187,893</u>
Total noncurrent liabilities	<u>42,624,196</u>	<u>32,187,893</u>
Total liabilities	<u>51,660,401</u>	<u>40,867,789</u>
Net assets:		
Invested in capital assets, net of related debt	152,006,109	152,768,075
Restricted for:		
Capital projects	<u>24,751,705</u>	<u>24,550,008</u>
Net assets	<u>176,757,814</u>	<u>177,318,083</u>
Total liabilities and net assets	<u><u>\$ 228,418,215</u></u>	<u><u>\$ 218,185,872</u></u>

See accompanying notes to basic financial statements

FOOTHILL TRANSIT
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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Farebox and bus pass	\$ 18,496,259	\$ 17,238,311
Special services	204,227	386,031
Dial-A-Ride	729,537	667,633
Liquidated damages	97,100	124,200
Other revenue	58,361	90,923
Total operating revenues	<u>19,585,484</u>	<u>18,507,098</u>
Operating expenses:		
Operating expenses before depreciation and amortization:		
Transit operations	44,700,314	42,546,290
Fuel costs	5,899,524	6,369,946
Management service contract	7,293,707	6,450,062
Special services	131,384	224,755
Dial-A-Ride	718,033	656,265
Professional services	1,264,497	1,113,036
Advertising	318,188	216,422
General and administrative	2,288,971	2,250,497
Operating expenses before depreciation and amortization	<u>62,614,618</u>	<u>59,827,273</u>
Depreciation and amortization expense	<u>17,632,250</u>	<u>17,509,060</u>
Total operating expenses	<u>80,246,868</u>	<u>77,336,333</u>
Operating loss	<u>(60,661,384)</u>	<u>(58,829,235)</u>
Nonoperating revenues:		
Operating grants:		
Proposition A Formula Subsidy	13,414,216	12,740,785
Proposition A Bus Service Continuation Program	3,796,788	2,667,971
Proposition C Transit Service Expansion – Line 690	295,912	290,137
Proposition C Base Restructuring	1,775,736	1,741,088
Proposition C BSIP – Overcrowding Relief	826,733	810,601
Proposition C 5% Transit Security	617,658	543,760
Proposition A & C Interest	-	(10,918)
Measure R	8,779,338	7,410,667
AQMD	-	7,886
FTA Section 5307 Preventive Maintenance	761,015	4,239,628
FTA Section 5307 ARRA Preventive Maintenance	-	397,988
STA operations	3,295,652	5,280,754
Transportation Development Act – Operating Grant Portion	9,643,828	5,268,157
Total operating grants	<u>43,206,876</u>	<u>41,388,504</u>

See accompanying notes to basic financial statements

FOOTHILL TRANSIT
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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Other income (expense):		
Interest income	\$ 75,137	\$ 36,145
Rental income	369,272	330,393
Security plan joint development grant	99,694	581,947
Interest expense	(197,324)	-
Security plan joint development expense	(99,694)	(581,947)
Property management expense	(625,306)	(540,295)
Loss on disposal of assets	3,154	105,429
Total other income, net	<u>(375,067)</u>	<u>(68,328)</u>
Total nonoperating revenues, net	<u>42,831,809</u>	<u>41,320,176</u>
Loss before capital contributions	<u>(17,829,575)</u>	<u>(17,509,059)</u>
Capital contributions:		
Proposition C 5% Transit Security	21,574	-
Proposition C Call for Projects	3,974,295	228,338
Proposition C MOSIP	1,974,264	2,506,121
AQMD – MSRC	193,865	-
FTA Section 5307	4,604,265	6,770,164
FTA Section 5307 ARRA	2,022,249	6,091,298
FTA Section 5309	2,563,476	137,225
CMAQ	460,737	247
Homeland security	967,673	50,110
Proposition 1B	120,998	266,874
Transportation Development Act – Capital Grant Portion	113,824	637,113
Other	252,086	-
Total capital contributions	<u>17,269,306</u>	<u>16,687,490</u>
Change in net assets	<u>(560,269)</u>	<u>(821,569)</u>
Net assets at beginning of year	<u>177,318,083</u>	<u>178,139,652</u>
Net assets at end of year	<u>\$ 176,757,814</u>	<u>\$ 177,318,083</u>

See accompanying notes to basic financial statements

FOOTHILL TRANSIT
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Statements of Cash Flows

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from customers	\$ 20,081,806	\$ 18,900,993
Cash received from liquidated damages	180,350	110,418
Cash received from other revenue	58,361	90,923
Cash paid for transit operations	(42,437,317)	(42,782,657)
Cash paid for fuel costs	(7,164,145)	(6,316,745)
Cash paid for management service contract	(7,193,707)	(6,450,062)
Cash paid for special services	(132,201)	(293,280)
Cash paid for Dial-a-Ride	(724,198)	(586,939)
Cash paid for professional services	(1,264,497)	(1,114,357)
Cash paid for advertising	(292,683)	(208,693)
Cash paid for general and administrative services	(2,075,717)	(2,284,712)
Net cash used in operating activities	<u>(40,963,948)</u>	<u>(40,935,111)</u>
Cash flows from noncapital financing activities:		
Operating grants	<u>45,519,818</u>	<u>45,926,044</u>
Net cash provided by noncapital financing activities	<u>45,519,818</u>	<u>45,926,044</u>
Cash flows from capital and related financing activities:		
Cash received from capital grants	21,608,634	31,058,615
Purchase of capital assets	(18,527,922)	(15,767,226)
Proceeds from sale of capital assets	3,154	105,429
Proceeds from rental property	369,271	349,067
Rental property expense	(625,306)	(518,432)
Security Deposit Refund	-	(4,694)
Net cash used in capital and related financing activities	<u>2,827,831</u>	<u>15,222,759</u>
Cash flows from investing activities:		
Interest received	<u>54,748</u>	<u>37,106</u>
Net cash provided by investing activities	<u>54,748</u>	<u>37,106</u>
Net increase in cash and cash equivalents	7,438,449	20,250,798
Cash and cash equivalents at beginning of year	59,402,379	39,151,581
Cash and cash equivalents at end of year	<u>\$ 66,840,828</u>	<u>\$ 59,402,379</u>
Reconciliation of net operating expenses to net cash used in operating activities:		
Operating loss	<u>\$ (60,661,384)</u>	<u>\$ (58,829,235)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	17,632,250	17,509,060
Changes in operating assets and liabilities:		
Decrease (increase) in receivables	3,646,684	(6,049,949)
Decrease (increase) in prepaid items	94,058	(84,280)
(Decrease) increase in accounts payable and accrued liabilities	(1,675,556)	6,519,293
Total adjustments	<u>19,697,436</u>	<u>17,894,124</u>
Net cash used in operating activities	<u>\$ (40,963,948)</u>	<u>\$ (40,935,111)</u>
Non-cash investing and financing activities:		
Gain (Loss) on disposal of assets	\$ 3,154	\$ 105,429

See accompanying notes to basic financial statements

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Notes to Basic Financial Statements
June 30, 2012

Note 1: Organization

Foothill Transit was established in 1988 as a governmental entity under a joint exercise of powers agreement and currently includes 22 cities in the San Gabriel Valley and the County of Los Angeles. Foothill Transit's governing board membership includes one city council member and one alternate from each of the 22 cities in Foothill Transit's service area as well as three appointed representatives for the County of Los Angeles. A five member Executive Board governs Foothill Transit. Four elected officials representing four clusters of cities, and a fifth member elected by the appointed Los Angeles County representatives, comprise Foothill's Executive Board. Through its independent service contractors, Foothill Transit operates a fleet of 314 buses from its Arcadia and Pomona, California facilities. Foothill Transit has been authorized by the Los Angeles County Metropolitan Transportation Authority (LACMTA) to plan, operate, and contract for cost-effective public transit services.

Foothill Transit has no employees. All management and administrative staff are provided under contract by Veolia Transportation. Transit operations services are also provided by independent contractors. Substantially all insurable risks associated with Foothill Transit's operations are covered through these contracts.

Note 2: Summary of Significant Accounting Policies

a. Basis of Presentation

Foothill Transit accounts for its activities, which are maintained using the economic resources measurement focus on the accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they are earned, and expenses are recognized in the period incurred.

b. New Accounting Pronouncements

There were no new accounting pronouncements applicable to Foothill Transit for fiscal year 2011/2012.

c. Classification of Current and Noncurrent Assets and Liabilities

Foothill Transit considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statement of net assets date. Liabilities that reasonably can be expected, as part of normal Foothill Transit business operations, to be liquidated within 12 months of the balance sheet date are considered to be current. All other assets and liabilities are considered to be noncurrent.

d. Grants and Subsidies

Grant and subsidy revenues are recorded when earned. Grant sources currently include Los Angeles County Propositions A, C and Measure R, which are local sales tax initiatives passed by the voters of Los Angeles County, Local Transportation Funds (LTF) described below and Federal Transit Administration (FTA) capital assistance.

Foothill Transit receives substantial grant funds from these various County, State, and Federal entities. Funds received from such entities are subject to certain required terms

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Notes to Basic Financial Statements
June 30, 2012

Note 2: Summary of Significant Accounting Policies (Continued)

and conditions of the underlying grant agreements and are subject to audit by the grantor agencies. Amounts received under such grants and contractual agreements are subject to change based on the results of such audits.

Transportation Development Act (TDA) funds and State Transit Assistance (STA) are received for both operating and capital expenditures. These funds are derived from the State Local Transportation Funds (LTF) and are allocated to Foothill Transit using the Formula Allocation Procedures. These funds can be used for capital and operating purposes, however Foothill Transit's goal is to use them to the extent possible as a local match on federally funded projects (capital).

Federal Grants

As of June 30, 2012, Foothill Transit has several active grants with the FTA. The active grants are as follows:

<u>Grant number</u>	<u>CFDA number</u>	<u>Purpose</u>	<u>Award Amount</u>	<u>Status</u>
1. CA-90-Y184	20.507	Pay-off COP \$10.3M; Purchase 45 CNG buses \$17.6M and acquisition of \$1.6M.	\$29.5M	Closed June 2012
2. CA-90-Y185	20.207	Purchase of 75 CNG buses \$18.9M; Smart bus \$2.2M; \$660,000	\$7.0M	Closed June 2012
3. CA-90-Y729	20.507	Replacement Buses FY 09 Preventative Maintenance	\$25.68M	Closed June 2012
4. CA-90-Y334	20.507	El Monte Station Rehab \$1.3M; Universal Fare System \$5.7M	\$7.0M	Closed July 2012
5. CA-90-Y513	20.507	Purchase of 5 CNG buses \$2.0M; Rehabilitation of Admin. Bldg. \$7.8M; Preventive Maintenance \$5.0M; Smart Bus \$5.7M	\$20.5M	Awarded: June 2007
6. CA-95-X138	20.507	Express Lanes-Operating Assistance	\$3.2M	Awarded: July 2008
7. CA-90-Y653	20.507	FY08 Preventive Maintenance; West Covina Park & Ride	\$7.6M	Awarded: August 2008
8. CA-04-0093	20.500	San Gabriel Valley Park and Ride	\$12.92M	Awarded: September 2008

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Notes to Basic Financial Statements
June 30, 2012

Note 2: Summary of Significant Accounting Policies (Continued)

<u>Grant number</u>	<u>CFDA number</u>	<u>Purpose</u>	<u>Award Amount</u>	<u>Status</u>
9. 2008-RL-T8-K0018	20.507	Joint Development of Threat Assessment; Front Line-Upper Management Awareness	\$1.25M	Awarded: May 2009
10. 2009-RA-T9-K019	20.507	Facility Security Hardening; Silver Streak Surveillance Cameras	\$2.1M	Awarded: July 2009
11. CA-96-X010	20.507	Electric Bus Project/ Facility Improvements/ Preventative Maintenance	\$21.36M	Awarded: August 2009
12. CA-90-Y797	20.507	Purchase of 12 CNG buses \$5.9M/ Preventive Maintenance \$8.4M	\$14.37M	Awarded: October 2009
13. CA-88-0002	20.523	Electric Buses	\$11.3M	Awarded: August 2011
14. CA-04-0210	20.500	Park & Ride/CNG Bus Replacement	\$4.1M	Awarded: September 2011
15. CA-90-Y987	20.507	CNG Fueled Replacement Buses	\$31.0M	Awarded: July 2012

e. Operating and Nonoperating Revenues and Expenses

Foothill Transit distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with Foothill's principal ongoing operations. The principal operating revenues are passenger fares charged for transportation service to the San Gabriel Valley. Operating expenses include the cost of transportation services, maintenance of capital assets and facilities, administrative expenses, and depreciation reported on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Operating assistance grants are included as nonoperating revenues in the year in which a related reimbursable expenditure is incurred or in unearned revenue for use in a subsequent fiscal year.

Foothill's policy is to report revenue from capital grants separately after nonoperating revenues as the related expenditures are incurred. Assets acquired with capital grant funds are included in capital assets. Capital monies received prior to an expenditure being incurred are recorded as unearned revenue.

FOOTHILL TRANSIT
(A Joint Powers Authority)
Notes to Basic Financial Statements
June 30, 2012

Note 2: Summary of Significant Accounting Policies (Continued)

f. Election of Applicable FASB Statements

Foothill Transit applies all Governmental Accounting Standards Board (GASB) pronouncements and those Financial Accounting Standards Board (FASB) pronouncements, including applicable Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements or opinions conflict or contradict with GASB pronouncements, in which case GASB prevails. Foothill Transit has elected not to adopt the pronouncements issued by the FASB after November 30, 1989.

g. Investments

Foothill Transit reports investment securities and similar assets held for investment purposes at fair value. Except for cash and cash equivalents such as negotiable certificates of deposit (which are carried at face value), the fair value of substantially all such investments is based on the published market prices of publicly traded securities.

h. Capital Assets

Capital assets which include property, plant, and equipment are defined by Foothill Transit as assets with an initial value exceeding \$500 and having an estimated useful life of more than one year. Capital assets are valued at historical cost. Donated assets are valued at estimated fair market value at the date of donation. Foothill Transit did not receive any donated capital assets during fiscal years 2012 and 2011. Capital assets are depreciated over their estimated useful lives using the straight-line method.

The following estimated useful lives are used for Foothill's capital assets:

Facility	20 to 31.5 years
Other improvements	3 to 7 years
Transit buses and rehabilitation costs	5 to 12 years
Other operating equipment	3 to 9 years
Vehicles	5 years
Furniture and fixtures	7 years

i. Cash and Cash Equivalents

For the purpose of the statement of cash flows, Foothill Transit considers cash, demand deposits and investment pools to be cash and cash equivalents.

In addition all cash invested in the state investment pool, Local Agency Investment Fund (LAIF), are stated at their fair value (the value at which financial instruments could be exchanged in a current transaction between willing parties, other than a forced liquidation sale).

j. Unearned Revenue

Unearned revenue is composed entirely of grant funds which Foothill Transit has received in advance for operations, capital acquisition, or construction but which have not been expended and therefore not earned at June 30, 2012.

FOOTHILL TRANSIT
(A Joint Powers Authority)

Notes to Basic Financial Statements
June 30, 2012

Note 2: Summary of Significant Accounting Policies (Continued)

k. Net Assets

Foothill Transit's net assets are classified into the following net asset categories:

1. Invested in Capital Assets, Net of Related Debt

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

2. Restricted

Net assets that have external constraints placed on them by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through contribution provision of enabling legislation.

3. Unrestricted

Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." Unlike the restricted net assets, the board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net assets. The board may at any time change or eliminate amounts established for these purposes. There were no unrestricted net assets as of June 30, 2012 and 2011.

l. Nonexchange Transactions

Foothill Transit recognizes all capital grants as capital contributions in the statements of revenues, expenses, and changes in net assets.

m. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

n. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Note 3: Cash and Investments

As a public agency, Foothill Transit's investment practices are prescribed by various provisions of the California Government Code and the Act, as well as by administrative policies. Foothill Transit's statement of investment policy is approved by the Board and describes the Treasurer's investment authority, practices, and limitations. The basic investment policy objectives, in order of importance, are safety of principal, liquidity, and return on investment.

Cash and investments may or may not be restricted as to use, depending on the specific purposes for which such assets are held.

FOOTHILL TRANSIT
(A Joint Powers Authority)

Notes to Basic Financial Statements
June 30, 2012

Note 3: Cash and Investments (Continued)

Cash and investments at June 30, 2012 and 2011 were reported in the accompanying financial statements as follows:

	<u>2012</u>	<u>2011</u>
Cash and investments	<u>\$ 66,840,828</u>	<u>\$ 59,402,379</u>

Deposits

At June 30, 2012, the carrying amount of Foothill Transit's deposits was \$32,420,966 and the bank balance was \$34,339,497. The difference of \$1,918,531 represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an Entity's deposits by pledging government securities with a value of 110% of an Entity's deposits. California law also allows financial institutions to secure the Entity's deposits by pledging first trust deed mortgage notes having a value of 150% of the Entity's total deposits. The Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking.

The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

A provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction account at all FDIC-insured institutions. This provision was effective from December 31, 2010 and will remain effective until December 31, 2012. Noninterest-bearing transaction accounts is defined as an account (1) with respect to which interest is neither accrued nor paid; (2) on which the depositor or account holder is permitted to make withdrawals by negotiable or transferable instrument, payment orders of withdrawal, telephone or other electronic media transfers, or other similar items for the purpose of making payments or transfers to third parties or others; and (3) on which the FDIC-insured depository institutions does not reserve the right to require advance notice of an intended withdrawal. As of June 30, 2012, the Authority maintains cash deposits that are temporary covered by this provision.

Investments

Under provision of Foothill Transit's investment policy, and in accordance with the California Government Code, the following investments are authorized:

- Checking Account Demand Deposits
- Passbook Savings Account Demand Deposits
- Money Market Mutual Funds

FOOTHILL TRANSIT
(A Joint Powers Authority)

Notes to Basic Financial Statements
June 30, 2012

Note 3: Cash and Investments (Continued)

- Local Agency Investment Fund (LAIF) Demand Deposits
- Obligations of the U.S. Government, its agencies, and instrumentalities Federal Agency obligations
- Municipal Securities (California cities and local agencies) rated "A" or better by Moody's or S&P
- Certificates of deposit
- Negotiable Certificates of Deposits, federally insured with the issuer
- Banker's Acceptances, issued by domestic or foreign banks, which are eligible for purchases by the Federal Reserve System
- Repurchase Agreements used solely for short-term investments not to exceed 30 days
- Bonds issued by any city, county, or local agency in California or by the State of California

Investments Authorized by Debt Agreements

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or Foothill Transit's investment policy.

Investments in State Investment Pool

Foothill Transit is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares. The Fund is principally invested in obligations of federal government agencies, U.S. Treasury securities, certificates of deposit, and commercial paper. The Fund's manager considers the credit risk as minimal. The Fund is protected against fraudulent acts by the state's self-insurance program.

GASB Statement No. 31

Foothill Transit adopted GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values.

Credit Risk

Foothill Transit's investment policy limits investments in municipal securities, negotiable certificates of deposits, and banker's acceptances to those rated "A" or better and repurchase agreements and bonds to those rated in the highest category by Moody's or S&P. As of June 30, 2012, Foothill Transit's investments did not include any of those listed above. As of June 30, 2012, Foothill Transit's investment in the State Investment Pool has not been rated by a nationally recognized statistical rating organization.

FOOTHILL TRANSIT
(A Joint Powers Authority)
Notes to Basic Financial Statements
June 30, 2012

Note 3: Cash and Investments (Continued)

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2012, none of Foothill Transit's deposits or investments were exposed to custodial credit risk.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the authority's investment policy limits the authority's portfolio to maturities of less than five years. Foothill Transit has elected to use the segmented time distribution method of disclosure for its interest rate risk.

As of June 30, Foothill Transit had the following investments and remaining maturities:

2012			
Remaining Investment Maturities			
<u>Investment Type:</u>	<u>Less Than</u>		<u>Fair</u>
	<u>1 year</u>	<u>2 Years</u>	<u>Value</u>
Money Market	\$ 20,417,361	\$ -	\$ 20,417,361
Certificates of Deposit	6,988,000	-	6,988,000
US Treasury Notes	1,998,787	-	1,998,787
Local Agency Investment Fund	5,015,714	-	5,015,714
Total	<u>\$ 34,419,862</u>	<u>\$ -</u>	<u>\$ 34,419,862</u>

2011			
Remaining Investment Maturities			
<u>Investment Type:</u>	<u>Less Than</u>		<u>Fair</u>
	<u>1 year</u>	<u>2 Years</u>	<u>Value</u>
Money Market	\$ 10,337,812	\$ -	\$ 10,337,812
Certificates of Deposit	5,743,000	747,000	6,490,000
US Treasury Notes	1,996,158	-	1,996,158
Local Agency Investment Fund	4,995,476	-	4,995,476
Total	<u>\$ 23,072,446</u>	<u>\$ 747,000</u>	<u>\$ 23,819,446</u>

FOOTHILL TRANSIT
(A Joint Powers Authority)

Notes to Basic Financial Statements
June 30, 2012

Note 4: Due from Other Governmental Agencies

At June 30, 2012 and 2011, amounts due from other governmental agencies consist of the following and are expected to be collected within one year:

	<u>2012</u>	<u>2011</u>
Section 5307 Capital Grant – FTA	\$ 4,542,304	\$ 2,386,422
Homeland Security	125,494	50,111
Transportation Development Act (TDA)	1,463,255	1,199,662
State Transit Assistance	823,913	-
Proposition C Call For Projects	-	153,141
Proposition C MOSIP	290,777	251,627
1B Bonds	-	94,615
AQMD	10,760	7,886
LA Metro	175,473	70,608
Retail Pass Sales	158,585	81,633
	<u>\$ 7,590,561</u>	<u>\$ 4,295,705</u>

Note 5: Other Receivables

At June 30, 2012 and 2011, other receivables consist of the following and are expected to be collected within one year:

	<u>2012</u>	<u>2011</u>
Trade Receivables (Pass Sales)	\$ 793,270	\$ 373,833
LA Metro	-	640
Other Trade Receivables	118,142	377,727
	<u>\$ 911,412</u>	<u>\$ 752,200</u>

FOOTHILL TRANSIT
(A Joint Powers Authority)

Notes to Basic Financial Statements
June 30, 2012

Note 6: Capital Assets

Changes in the capital assets by category for the year ended June 30, 2012, are as follows:

	Balance July 1, 2011	Adjustments/ Transfers	Additions	Reductions	Balance June 30, 2012
Capital assets not being depreciated:					
Land	\$ 10,132,713	\$ -	\$ -	\$ -	\$ 10,132,713
Construction in progress	3,315,766	(1,565,594)	945,367	-	2,695,539
Total capital assets not being depreciated	13,448,479	(1,565,594)	945,367	-	12,828,252
Other capital assets:					
Facility	79,434,093	1,565,594	2,696,429	-	83,696,116
Transit buses	135,498,892	(1,334,871)	8,689,413	-	142,853,434
Other operating equipment	31,613,561	1,334,871	4,783,942	(57,342)	37,675,032
Vehicles	4,732,258	-	9,800	(49,720)	4,692,338
Furniture and fixtures	706,422	-	-	-	706,422
Total other capital assets at historical cost	251,985,226	1,565,594	16,179,584	(107,062)	269,623,342
Accumulated depreciation:					
Facility	(24,780,959)	-	(2,702,002)	-	(27,482,961)
Transit buses	(64,859,435)	83,533	(11,000,071)	-	(75,775,973)
Other operating equipment	(17,321,725)	(83,533)	(3,698,049)	-	(21,103,307)
Vehicles	(4,357,187)	-	(150,592)	49,720	(4,458,059)
Furniture and fixtures	(543,648)	-	(81,537)	-	(625,185)
Total accumulated depreciation and amortization	(111,862,954)	-	(17,632,251)	49,720	(129,445,485)
Other capital assets, net	140,122,272	1,565,594	(1,452,667)	(57,342)	140,177,857
Total capital assets, net	\$ 153,570,751	\$ -	\$ (507,300)	\$ (57,342)	\$ 153,006,109

FOOTHILL TRANSIT
(A Joint Powers Authority)

Notes to Basic Financial Statements
June 30, 2012

Note 7: Management Contract and Transit Services Operating Agreements

a. Management Contract

Veolia Transportation provides all day-to-day administrative and operational management staff of Foothill Transit based on an amended and restated agreement between Foothill Transit and Veolia Transportation dated May 7, 2008. The agreement extends the current contract six years including the one year remaining on the original agreement with five renewal options exercisable at the sole discretion of the Executive Board.

Under the agreement, entered into May 7, 2008, Foothill Transit is obligated to pay monthly management fees to Veolia Transportation. This agreement may be canceled at Foothill Transit's sole discretion (without any liability, other than payment for services rendered) by providing 90 days written notice.

Management fee expenses for the years ended June 30, 2012 and 2011 were \$7,676,421 and \$6,747,224 respectively. Foothill Transit's Executive Director, who is also a Veolia Transportation Vice President, is precluded from either voting or making board recommendations relative to Foothill Transit's contract with Veolia Transportation.

b. Transit Services Operating Agreements

Effective January 1, 2012, First Transit Services, Inc. was awarded a three year contract with three two year options for operating services at the Pomona Facility. MV Transportation was awarded a similar contract, two years plus three one year options effective July 15, 2007, for operating services at the Arcadia Facility, thus eliminating one service contractor for both the Arcadia and Pomona Facilities which was the case prior to the execution of MV Transportation contract. Under the terms of the agreements, Foothill Transit is required to cover 100% of the fuel cost which is estimated to be approximately \$7-\$7.5 million per year.

Such agreements are cancelable at Foothill Transit's option if determined to be in its best interest. The agreements may also be terminated by Foothill Transit if (1) the contractor defaults or is guilty of misinterpretation or (2) the agreement is either obtained by unlawful means or conflicts with any California or federal law. On a combined basis, such entities have provided performance bonds totaling approximately \$11,152,000 for the protection of Foothill Transit.

MV Transportation operating the Arcadia Facility is compensated based on operating bus time at certain base hourly rates for contractual revenue hours per year. Any excess revenue hours are compensated at reduced rates. Hourly rates for annual revenue hours exceeding 115% of the contractual amount are negotiable. Foothill Transit's related expense approximated \$24,443,124 and \$22,821,877 for the years ended June 30, 2012 and 2011, respectively.

The Pomona Facility operated by First Transit is compensated based on contractually determined rates per bus revenue mile. First Transit also is compensated a fixed monthly fee for indirect overhead eliminating rate differentials for increases or decrease in bus revenue miles. The mileage rates are subject to adjustment in June of each year based on the change in the CPI for the year ending the previous May. Foothill Transit's related expense approximated \$20,257,190 and \$19,624,413 for the years ended June 30, 2012 and 2011, respectively.

FOOTHILL TRANSIT
(A Joint Powers Authority)
Notes to Basic Financial Statements
June 30, 2012

Note 8: Commitments and Contingencies

a. Operating Lease Commitments

Foothill Transit leases certain facilities and equipment under long-term lease agreements.

Foothill Transit leases space for a Transit Store in the Puente Hills Mall. This lease is scheduled to expire October 31, 2015. Monthly rent includes a base amount of \$1,173 plus additional charges for marketing, taxes and insurance. Currently the additional charges total \$2,088 for a total monthly rent of \$3,262. Rent expense for the years ended June 30, 2012 and 2011, approximated \$55,683 and \$33,646.

b. Capital Lease Commitments

In November 2001, Foothill Transit entered into a lease agreement for the purpose of constructing, operating, and maintaining a Compressed Natural Gas (CNG) fueling station to be located at the Foothill Transit Pomona Operations and Maintenance Facility.

Foothill Transit agreed to pay monthly payments of \$25,000 per month for 120 months plus \$2,100,000 in capital payments.

In addition to the above payments, Foothill Transit agreed to purchase a minimum number of gallons per month (throughput). The original quantity of throughput was 175,000 gallons for the first 12 months and 225,000 gallons for the remaining 168 months. These terms were amended in March 2003 reducing the monthly throughput to 55,000 gallons until October 1, 2003, and then increasing to 105,000 gallons per month to the end of the agreement, May 2012. The Contract was amended effective July 1, 2008 eliminating the throughput requirement.

During the fiscal year 2004, Foothill Transit changed the estimated useful life of the fueling station from 20 years down to 10 years. As the lease term is greater than 75% of the estimated economic life of the leased property, the fueling station was classified as a capital lease resulting in the recognition of a facility asset and related liability of \$3,667,850.

The outstanding balance at June 30, 2012 is \$1,000,000 including interest of \$197,324.

Changes in current Capital Lease debt are as follows.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital Lease:				
Current	\$ 802,676	\$ 197,324	\$ -	\$ 1,000,000
	<u>\$ 802,676</u>	<u>\$ 197,324</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>

FOOTHILL TRANSIT
(A Joint Powers Authority)

Notes to Basic Financial Statements
June 30, 2012

Note 8: Commitments and Contingencies (Continued)

The outstanding capital lease commitment payable is as follows:

Year Ending June 30,	Capital Leases	Operating Leases	Total
2013	\$ 1,000,000	\$ -	\$ 1,000,000
Total	\$ 1,000,000	\$ -	\$ 1,000,000

The final Capital Lease payment to Clean Energy was payable on May 1, 2012, which is being delayed pending the outcome of negotiation between Foothill Transit and Clean Energy. Foothill Transit and Clean Energy both believe they are entitled to a \$0.50 per gallon Excise Tax credit and as stated in the subsequent events footnote, the IRS is unwilling to make a determination as to the status of the "alternative fueler". The IRS has unofficially suggested Foothill Transit and Clean Energy agree one of them is the "alternative fueler" who would then reimburse the other party an agreed share of the CNG Excise Tax Credit. In the event Clean Energy is designated as the "alternative fueler", the amount then due Foothill Transit would be \$1.0 million less.

c. Legal Matters

In the ordinary course of business, Foothill Transit is subject to certain lawsuits and other potential legal actions. In the opinion of management, such matters will not have a material effect on the financial position of Foothill Transit.

Note 9: Operating Lease Income

Foothill Transit is the lessor in several non-cancellable operating leases for surplus office space in the administrative offices building. Two of the administrative offices building's six floors are leased, the first floor is leased to Chase and the fourth floor is leased to three different entities. The cost of the two leased floors approximates \$5,982,412 or one third of the building cost at June 30, 2012. The carrying value is \$4,753,118 net of accumulated depreciation of \$1,229,295.

The future minimum lease rentals in the aggregate for each of the five succeeding fiscal years are:

Year Ending June 30	Lease Revenue
2012	\$ 369,936
2013	369,250
2014	337,533
2015	348,265
2016	274,824
Total	\$ 1,699,808

FOOTHILL TRANSIT
(A Joint Powers Authority)

Notes to Basic Financial Statements
June 30, 2012

Note 10: Risk Management

Foothill Transit carries commercial insurance to protect against potential losses, including coverage for the following: commercial general liability, excess liability, public officials and employee liability, computer equipment (including media and data protection), commercial property (including personal property and business income), and pollution liability (including loss remediation or legal expense coverage).

Foothill Transit also requires its contract transit operators to provide, as a contract requirement, insurance coverage naming Foothill Transit as an additional insured on their commercial general liability, automobile liability, excess liability, and workers' compensation policies.

There were no reductions in coverage or claims in excess of coverage during the fiscal years ended June 30, 2012, 2011, and 2010. The following schedule of claims and payments for the previous three fiscal years also indicates that settlements have not exceeded coverage for these periods:

Years Ending June 30,	Claims Payable July 1st	Claims & Changes in Estimates	Claims Payments	Claims Payable June 30
2010	\$ -	\$ -	\$ -	\$ -
2011	-	-	-	-
2012	-	-	-	-

Note 11: Subsequent Events

The Safe, Accountable, Flexible, Efficient Transportation Equity Act – a legacy for users (SAFETEA-LU) provides an incentive for Compressed Natural Gas (CNG) when used as “motor vehicle” fuel. The \$.50 per gallon credit incentive is provided to the “Alternative Fueler” as detailed in the Internal Revenue Service Code. Foothill Transit negotiated with our natural gas suppliers to determine who qualifies as the “alternative fueler” and is eligible to receive the credit for CNG fuel used to propel Foothill Transit motor vehicles. The negotiations ended with both Foothill Transit and our natural gas supplier believing they were the “alternative fueler” and eligible to claim the \$.50 per gallon credit.

Foothill Transit requested a Revenue Ruling Letter from the Internal Revenue Service (IRS) to determine that Foothill Transit is the “alternative fueler” and as such eligible to receive the \$.50 per gallon credit. Subsequent to receiving the Revenue Ruling Letter indicating Foothill Transit was the “alternative fueler” eligible to receive the credit, the Internal Revenue Service began an audit reviewing compliance with the requirements to receive the credit. The results of the audit from the IRS determined Foothill Transit is not the “alternative fueler” for the period of October 1, 2006 through June 30, 2008. Foothill Transit refunded the tax credit plus interest and penalties for the period in question. A timely appeal has been filed with the Internal Revenue Service to reverse its audit determination and refund the tax credit, interest and penalties assessed and paid as a result of the audit. Unfortunately, the appeal process has resulted with the IRS unwilling to make a determination as to Foothill Transit's status as the “alternative fueler”. The final determination has, therefore, been put on hold indefinitely.

FOOTHILL TRANSIT
(A Joint Powers Authority)

Notes to Basic Financial Statements
June 30, 2012

Note 11: Subsequent Events (Continued)

Foothill Transit executed an operating contract with First Transit Services Inc. to operate its Arcadia Facility effective July 1, 2012. The Execution of this contract has one contractor, First Transit, responsible for the operations at both of Foothill Transit's Facilities, Arcadia and Pomona. The term of the contract is for three years with three two year options. The other terms of the agreement are similar to the operating agreement executed for the Pomona Facility including compensation based on per revenue mile fixed rates with a monthly fixed fee for indirect operating expenses.

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FOOTHILL TRANSIT
(A Joint Powers Authority)

Schedule of Expenditures of Federal Awards
June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Project ID #</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation</u>			
Federal Transit Administration:			
Federal Transit Formula Grants (ARRA)*:			
Section 5307 - Formula Fund Grant	20.507	CA-96-X010	\$ 2,022,249
Federal Transit Administration:			
Federal Transit Formula Grants*:			
Section 5307 - Formula Fund Grant	20.507	CA-90-Y184	156,554
		CA-90-Y185	7,286
		CA-90-Y729	1,056,014
		CA-90-Y653	23,483
		CA-90-Y987	3,360,928
		CA-90-Y334	460,737
		CA-90-Y797	761,015
			<u>5,826,017</u>
Federal Transit Administration:			
Federal Transit Capital Investment Grant*:			
Section 5309 - Discretionary Fund Grant	20.500	CA-04-0093	1,375,976
		CA-04-0210	1,187,500
			<u>2,563,476</u>
Total U.S. Department of Transportation			<u>10,411,742</u>
<u>U.S. Department of Homeland Security</u>			
Department of Homeland Security:			
Rail and Transit Security Program*	97.075	2009-RA-T9-K019	967,673
		2008-RL-T8-K0018	99,694
			<u>1,067,367</u>
Total U.S. Department of Homeland Security			<u>1,067,367</u>
Total Federal Expenditures			<u>\$ 11,479,109</u>

* Major Program

Note a: Refer to accompanying notes to the schedules of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance, insurance in effect or loan guarantees during the year.

FOOTHILL TRANSIT
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Schedule of Expenditures of Federal Awards
June 30, 2012

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by Foothill Transit that are reimbursable under federal programs of the federal financial assistance. For the purpose of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly for a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the full accrual basis of accounting. Under the full accrual basis of accounting, expenditures are recognized when incurred. Expenditures are incurred when Foothill Transit becomes obligated for payment as a result of the receipt of related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

Statistical Section

Statistical Section

This part of Foothill Transit's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the agency's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the agency's financial performance and well-being have changed over time.	32
Revenue Capacity	
These schedules contain information to help the reader assess the agency's most significant local revenue sources and taxes.	38
Debt Capacity	
These schedules present information to help the reader assess the affordability of the agency's current levels of outstanding debt and the agency's ability to issue additional debt in the future.	41
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the agency's financial activities take place.	42
Operating Information	
These schedules contain service and infrastructure data to help the reader understand how the information in the agency's financial report relates to the services the agency provides and the activities it performs.	44

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The agency implemented GASB Statement 34 in 2002; schedules presenting agency wide information include information beginning in that year.

Foothill Transit
Net Assets
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Investments in Capital Assets (Net)</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total Net Assets</u>
2003	\$ 84,653,766	\$ 24,417,897	\$ -	\$ 109,071,663
2004	94,066,739	26,254,056	-	120,320,795
2005	118,295,964	24,512,449	-	142,808,413
2006	122,717,282	24,487,450	-	147,204,732
2007	166,066,308	23,361,221	-	189,427,529
2008	154,957,324	25,035,711	-	179,993,035
2009	166,570,890	24,794,654	-	191,365,544
2010	153,466,484	24,673,168	-	178,139,652
2011	152,768,075	24,550,008	-	177,318,083
2012	152,006,109	24,751,705	-	176,757,814

Source: Foothill Transit Finance Department

Foothill Transit
Changes in Net Assets
Last Ten Fiscal Years

Fiscal Year	Operating Revenue	Operating Expense	Operating Income (Loss)	Nonoperating Revenues/Expenses	Income/(Loss) Before Contributions	Capital Contributions	Change in Net Assets
2003	\$16,333,721	\$59,643,011	(\$43,309,290)	\$34,400,240	(\$8,909,050)	\$38,175,663	\$29,266,613
2004	15,543,642	62,283,117	(46,739,475)	36,655,066	(10,084,409)	21,333,538	11,249,129
2005	15,185,794	65,312,779	(50,126,985)	38,953,918	(11,173,067)	33,660,688	22,487,621
2006	17,304,113	69,985,981	(52,681,868)	40,663,899	(12,017,969)	16,414,288	4,396,319
2007	17,383,615	74,196,948	(56,813,333)	43,089,186	(13,724,147)	55,946,944	42,222,797
2008	18,170,179	84,949,972	(66,779,793)	50,739,546	(16,040,247)	6,605,753	(9,434,494)
2009	18,291,655	84,782,327	(66,490,672)	49,642,554	(16,848,118)	28,220,627	11,372,509
2010	18,186,656	85,141,072	(66,954,416)	45,444,021	(21,510,395)	8,284,503	(13,225,892)
2011	18,507,098	77,336,333	(58,829,235)	41,320,176	(17,509,059)	16,687,490	(821,569)
2012	19,585,484	80,246,868	(60,661,384)	42,831,809	(17,829,575)	17,269,306	(560,269)

Source: Foothill Transit Finance Department

Foothill Transit
Operating Revenues by Source
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Farebox and Bus Pass Revenue</u>	<u>Special Services</u>	<u>Dial-A-Ride</u>	<u>Liquidated Damages</u>	<u>Other Revenue</u>	<u>Total</u>
2003	\$14,404,796	\$ 790,226	\$ 490,171	\$565,725	\$ 82,803	\$16,333,721
2004	14,233,259	661,581	519,060	93,700	36,042	15,543,642
2005	13,526,456	818,588	494,524	310,577	35,649	15,185,794
2006	15,816,183	863,317	458,507	144,900	21,206	17,304,113
2007	15,837,063	910,826	470,664	89,250	75,812	17,383,615
2008	16,503,879	862,745	542,873	235,350	25,332	18,170,179
2009	16,811,793	612,964	583,902	204,050	78,946	18,291,655
2010	16,454,980	744,039	594,913	251,950	140,774	18,186,656
2011	17,238,311	386,031	667,633	124,200	90,923	18,507,098
2012	18,496,259	204,227	729,537	97,100	58,361	19,585,484

Source: Foothill Transit Finance Department

Foothill Transit
Nonoperating Revenues and Expenditures
Last Ten Fiscal Years

Fiscal Year	Operating Grants	Interest	Gain (Loss) on Disposal of Assets	Other Expenses	Property Management	Total Nonoperating Revenue
2003	\$ 34,964,293	\$ 209,507	\$ (402,415)	\$ (371,145)	\$ -	\$ 34,400,240
2004	37,793,857	315,053	(1,421,388)	(32,456)	-	36,655,066
2005	39,109,821	424,471	(557,428)	(22,946)	-	38,953,918
2006	40,340,302	564,360	(291,667)	-	50,904	40,663,899
2007	42,462,266	670,583	(20,767)	12,480	(35,376)	43,089,186
2008	49,553,761	939,589	(20,191)	(35,491)	301,878	50,739,546
2009	48,801,545	454,230	70,373	(41,694)	358,100	49,642,554
2010	45,830,120	54,695	(746,515)	(47,137)	352,858	45,444,021
2011	41,388,504	36,145	105,429	-	(209,902)	41,320,176
2012	43,206,876	75,137	3,154	(197,324)	(256,034)	42,831,809

Source: Foothill Transit Finance Department

Foothill Transit **Operating Expenses** **Last Ten Fiscal Years**

Fiscal Year	Transit Operations	Fuel Cost	Management Service Contract	Special Services	Dial-A-Ride Expenditures	Professional Services	Advertising	General & Administrative	Depreciation	Total Operating Expenses
2003	\$37,629,405	\$4,832,490	\$4,555,459	\$568,851	\$517,479	\$450,208	\$319,237	\$1,582,291	\$9,187,591	\$59,643,011
2004	37,913,831	5,909,442	4,815,760	477,738	509,524	778,132	359,997	1,964,232	9,554,461	62,283,117
2005	37,638,709	7,771,424	5,083,432	561,473	484,702	829,635	431,584	2,032,320	10,479,500	65,312,779
2006	39,364,590	9,764,546	5,484,579	576,080	448,361	796,178	300,446	1,611,099	11,640,102	69,985,981
2007	40,536,232	9,336,406	6,148,767	650,391	460,015	990,646	355,110	2,160,881	13,558,500	74,196,948
2008	46,832,993	11,016,127	6,290,700	513,214	531,911	1,043,942	396,868	2,340,172	15,984,045	84,949,972
2009	47,926,526	9,042,246	6,617,100	412,170	572,315	1,098,836	337,098	1,969,613	16,806,423	84,782,327
2010	45,777,304	7,300,610	6,870,100	440,220	583,545	912,625	259,169	2,455,503	20,541,996	85,141,072
2011	42,546,290	6,369,946	6,450,062	224,755	656,265	1,113,036	216,422	2,250,497	17,509,060	77,336,333
2012	44,700,314	5,899,524	7,293,707	131,384	718,033	1,264,497	318,188	2,288,971	17,632,250	80,246,868

Source: Foothill Transit Finance Department

Foothill Transit
Capital Assets Grant Contributions
Last Ten Fiscal Years

Fiscal Year	Proposition "C"	Federal Transit Administration	State Transit Assistance	Transportation Development Act	Prop 1B/ Homeland Sec/ AQMD	Total
2003	\$ 725,203	\$ 27,254,788	\$ 636,855	\$ 9,558,817	\$ -	\$38,175,663
2004	1,460,243	14,811,792	61,925	4,999,578	-	21,333,538
2005	11,412,603	20,515,600	672,822	1,059,663	-	33,660,688
2006	2,866,959	9,127,554	43,048	3,035,718	1,341,009	16,414,288
2007	10,488,287	32,512,710	1,095,851	11,850,096	-	55,946,944
2008	626,354	2,082,899	44,645	3,136,855	715,000	6,605,753
2009	5,666,928	18,957,172	-	3,440,035	156,492	28,220,627
2010	1,319,670	6,453,233	-	337,734	173,866	8,284,503
2011	2,734,459	12,998,934	-	637,113	316,984	16,687,490
2012	5,970,133	9,650,727	-	113,824	1,534,622	17,269,306

Source: Foothill Transit Finance Department

Foothill Transit

Tax Revenues

Last Ten Fiscal Years
(in Thousands)

Fiscal Year	Foothill Transit ¹				Los Angeles County ⁵					
	Measure "R" ⁴			Total	% of LA County		Measure "R" ⁴			
	TDA ²	STA ³	Prop "A" ⁴		TDA ²	STA ³	Prop "A" ⁴	Total		
2003	\$17,701	\$855	\$10,820	\$29,376	3.27%	\$305,753	\$28,189	\$565,397	\$899,339	
2004	17,885	1,002	11,919	30,806	3.51%	287,350	28,122	563,127	878,599	
2005	20,555	1,160	13,325	35,040	3.77%	304,661	29,485	594,955	929,101	
2006	18,486	1,861	11,836	32,183	3.24%	317,824	54,792	619,348	991,964	
2007	20,629	2,486	12,347	35,462	3.18%	350,835	73,293	692,044	1,116,172	
2008	24,482	3,247	13,951	41,680	3.47%	377,268	80,204	743,829	1,201,301	
2009	23,059	8,667	13,800	45,526	3.47%	366,790	225,465	719,109	1,311,364	
2010	14,962	-	12,043	32,265	2.49%	280,300	-	605,884	\$411,953	
2011	14,254	3,825	12,741	37,483	2.43%	297,280	62,806	589,803	589,852	
2012	17,434	3,296	13,414	42,045	2.52%	323,557	64,853	642,641	638,260	
									1,669,311	

Source: LA Metro funding allocations

- 1) Tax revenues allocated to Foothill Transit
- 2) 1/4% of the Sales Tax revenue
- 3) 50% of Sales Tax revenue from the sale of diesel and gasoline fuel
- 4) Additional 1/2% Sales Tax approved by Los Angeles voters
- 5) Total funding received by LA County for allocation to Transit Operators.

Foothill Transits operating revenues are only sufficient to cover 24% to 27% of the operating expenditures and is therefore reliant on the above Sales Tax revenues.

Foothill Transit
Annual Farebox and Bus Pass Revenue
Last Ten Fiscal Years

Fiscal Year	Cash	Passes	MetroCards ¹	EZ Transit Passes	Other Revenue	Total
2003	\$ 8,551,069	\$ 4,847,630	\$ 863,654	\$ 125,994	\$ 16,449	\$14,404,796
2004	8,620,340	3,743,044	938,317	902,672	28,886	14,233,259
2005	8,688,233	2,700,705	1,247,621	870,492	19,405	13,526,456
2006	9,896,655	3,478,192	1,148,722	1,263,697	28,917	15,816,183
2007	9,886,576	2,901,507	1,253,953	1,766,158	28,869	15,837,063
2008	10,643,410	3,232,105	1,306,149	1,296,241	25,974	16,503,879
2009	10,831,738	3,085,010	1,404,858	1,462,852	27,335	16,811,793
2010	10,179,166	2,777,711	1,951,048	1,518,315	28,740	16,454,980
2011	10,965,031	3,230,792	1,836,503	1,172,952	33,033	17,238,311
2012	11,328,797	3,172,065	2,325,421	1,581,058	88,918	18,496,259

Source: Foothill Transit Finance Department

1) Magnetic cash card (similar to cash gift card) prior to FY 08-09, thereafter smartcard technology

Foothill Transit **Cash Fares** **Last Ten Fiscal Years**

Fiscal Year	Local			Local Plus			Commuter Express		
	Adult	Senior/ Disabled ¹	Student ²	Adult	Senior/ Disabled ¹	Student ²	Adult	Senior/ Disabled ¹	Student ²
2003	\$ 1.10	\$ 0.55	\$ 1.10	\$ 2.75	\$ -	\$ -	\$ 3.35	\$ -	\$ -
2004	1.10	0.55	1.10	2.75	-	-	3.35	-	-
2005	1.10	0.55	1.10	2.75	-	-	3.35	-	-
2006	1.00	0.50	1.00	3.00	1.50	1.50	3.50	1.75	1.75
2007	1.00	0.50	1.00	2.00	1.00	2.00	3.65	1.80	3.35
2008	1.00	0.50	1.00	2.50	1.25	2.50	4.40	4.40	4.40
2009	1.00	0.50	1.00	2.50	1.25	2.50	4.40	4.40	4.40
2010	1.25	0.50	1.25	2.75	1.35	2.75	4.90	4.90	4.90
2011	1.25	0.50	1.25	2.75	1.35	2.75	4.90	4.90	4.90
2012	1.25	0.50	1.25	2.75	1.35	2.75	4.90	4.90	4.90

Source: Foothill Transit Finance Department

- 1) Includes Medicare eligible customers
- 2) Includes K-12 and college eligible customers
- 3) New Service (Silver Streak) replace Local Plus
- 4) Discount fare only applies to non-peak service hours of operation, (Mon-Fri 10AM - 2PM and 8PM - 4AM), full fare or \$2.75 for peak service hours.
- 5) Commuter Express Service is ONLY operated during peak service periods
- 6) Fare increase effective June 27, 2010

Foothill Transit
Outstanding Debt
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Capital Lease</u>	<u>Total Debt</u>
2003	\$ 5,100,000	\$ 5,100,000
2004	3,800,000	3,800,000
2005	3,500,000	3,500,000
2006	3,200,000	3,200,000
2007	1,900,000	1,900,000
2008	1,600,000	1,600,000
2009	1,300,000	1,300,000
2010	1,000,000	1,000,000
2011	1,000,000	1,000,000
2012	1,000,000	1,000,000

Source: Foothill Transit Finance Department

Foothill Transit **Demographic Statistics** **Last Ten Fiscal Years**

Fiscal Year	Unemployment Rate	Population ¹ (000)	School Enrollment ² (000)	Personal Income		Consumer Price Index ³	
				Total (000)	Per Capita	Value	% Change
2003	6.8%	9,978	1,736	\$ 444,695	\$ 34,967	186.3	2.42%
2004	6.4%	10,107	1,743	468,524	36,705	193.7	3.97%
2005	5.2%	10,226	1,734	496,595	38,915	200.5	3.51%
2006	4.8%	10,245	1,708	536,323	42,185	212.4	5.93%
2007	4.7%	10,332	1,673	553,813	43,633	218.6	2.82%
2008	6.8%	10,364	1,649	567,707	44,462	229.0	5.40%
2009	10.8%	10,393	1,632	550,831	42,784	223.9	-2.60%
2010	11.6%	10,441	1,574	410,674	41,791	225.9	0.88%
2011	13.3%	9,858	1,590	422,584 ⁴	43,003 ⁴	232.3	2.90%
2012	11.1%	9,884	1,575	429,345 ⁴	44,250 ⁴	236.0	1.60%

Source: Foothill Transit Finance Department

- 1) State of California Department of Finance
- 2) California Department of Education
- 3) US Department of Labor Statistics
- 4) Data not available, amounts increased by CPI.

Foothill Transit
Ten Principal Employers Los Angeles County
2009¹ and 2006

Employer	2009			2006		
	Number of Employees	Percentage of Total	Rank	Number of Employees	Percentage of Total	Rank
Kroger Co. (Ralph's Grocery Co.)	140,000	3.30%	1	14,000	0.39%	10
County of Los Angeles	109,500	2.57%	2	93,200	2.65%	1
Los Angeles Unified School District	104,900	2.47%	3	74,632	2.12%	2
City of Los Angeles	56,200	1.32%	4	53,171	1.51%	3
Federal Government	48,100	1.13%	5	53,200	1.51%	4
Kaiser Permanente	34,100	0.80%	6	32,180	0.91%	6
State of California	30,500	0.72%	7	30,200	0.86%	7
University of California, Los Angeles	28,400	0.67%	8	35,543	1.01%	5
Northrop Grumman Corp.	19,100	0.45%	9	21,000	0.60%	8
Boeing	14,400	0.34%	10	15,825	0.45%	9
All Other Employers	3,666,000	86.23%		3,100,484	87.99%	
Total	<u>4,251,200</u>	<u>100.00%</u>		<u>3,523,435</u>	<u>100.00%</u>	

Source: Los Angeles Almanac; California Employment Development Department

1) Most current information available

Foothill Transit

Operating and Capital Indicators

Last Ten Fiscal Years

Fiscal Year	Buses	Maintenance Facilities	Routes	Veh Service Hours (000)	Cost/Vehicle Service Hr.	Boarding/Vehicle Service Hr	Passengers (000)	Farebox Recovery Ratio
2003	299	2	32	745	\$66.06	21.8	16,235	29.3%
2004	306	2	34	761	67.93	19.9	15,123	27.2%
2005	306	2	37	743	66.06	19.9	14,803	25.2%
2006	306	2	37	736	77.88	20.8	14,889	28.3%
2007	314	2	36	741	85.93	20.3	14,560	25.0%
2008	314	2	36	768	87.53	19.5	14,974	24.6%
2009	314	2	36	767	87.20	19.4	14,848	25.1%
2010	316	2	35	746	85.19	19.4	14,437	26.0%
2011	300	2	35	671	88.63	20.8	13,985	29.0%
2012	314	2	39	672	83.40	20.7	13,909	32.4%

Source: Foothill Transit Finance Department

Foothill Transit

Miscellaneous Statistics

Date Formed	December 1988
Type of Organization	Joint Powers Authority
Membership	22 Los Angeles County Cities and County of Los Angeles
Number of Executive Board Members	5
Number of Employees	Administration and Operations contracted to private enterprises
Type of Tax Support	Proposition A 1/2% Sales tax Proposition C 1/2% Sales tax Measure R 1/2% Sales Tax
Service area	San Gabriel & Pomona Valleys, Los Angeles County, CA
Contract services provided by:	
Administration	Veolia Transportation
Bus Operations	First Transit, USA and MV Transportation
Number of Buses in Fleet:	
Diesel Powered	23
Compressed Natural Gas Powered	288
Electric Powered	3
Operational and Maintenance Facilities	2
Sales Outlets (Transit Stores)	5
Bus Routes/Lines:	
Express	8
Local	31
Bus Stops	3,200
Annual Service Hours ¹	671,603
Annual Passengers ¹	13,909,627
Average Weekday Boardings ¹	46,075

Source: Foothill Transit Finance Department

1) Fiscal Year 2011-12

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Compliance Report



CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

We have audited the financial statements of the business-type activities information of the Foothill Transit Authority, West Covina, California (the Authority) as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Foothill Transit Authority, West Covina, California (the Authority), is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



To the Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

This report is intended solely for the information and use of management, Board of Directors, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Lughard, LLP

Brea, California
September 19, 2012



CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

Compliance

We have audited the Foothill Transit Authority, California's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2012. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Foothill Transit Authority, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the Foothill Transit Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.



To the Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the business-type activities of the Authority, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 19, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Loughard, LLP

Brea, California
September 19, 2012

FOOTHILL TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? ☐ yes ☒ no
- Material weaknesses identified? ☐ yes ☒ none reported

Noncompliance material to financial
statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? ☐ yes ☒ no
- Material weaknesses identified? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs: Unqualified Opinion

Any audit findings disclosed that are required to be
reported in accordance with Section 510(a) of
Circular A-133?

☐ yes ☒ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

20.500

Federal Transit Capital Investment Grant

20.507

Federal Transit Formula Grant

97.075

Rail and Transit Security Grant Program

Dollar threshold used to distinguish
between type A and type B program

\$344,373

Auditee qualified as low-risk auditee?

☒ yes ☐ no

FOOTHILL TRANSIT AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

FOOTHILL TRANSIT AUTHORITY

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

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CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
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- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON FOOTHILL TRANSIT'S COMPLIANCE
WITH THE STATE OF CALIFORNIA TRANSPORTATION DEVELOPMENT ACT AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE STATE OF CALIFORNIA
TRANSPORTATION DEVELOPMENT ACT

The Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

Compliance

We have audited the Foothill Transit Authority, California's compliance with the types of compliance requirements described in the Transportation Development Act (TDA) Conformance Auditing Guide (Guide) published by the Los Angeles County Metropolitan Transportation Authority (LACMTA), the Memorandum of Understanding for Proposition 1B Transit Security Bridge Funding, Public Transportation Modernization, Improvement, and Service Enhancement Account Guidelines (PTMISEA), and Proposition 1B Transit Modernization Bridge Funding by and between LACMTA, that could have a direct and material effect on Foothill Transit's compliance with the State of California Transportation Development Act for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of Foothill Transit's management. Our responsibility is to express an opinion on Foothill Transit's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a TDA and Proposition 1B programs occurred. An audit includes examining, on a test basis, evidence about Foothill Transit's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Foothill Transit's compliance with those requirements.

In our opinion, Foothill Transit complied, in all material respects, with the compliance requirements of the Transportation Development Act (TDA) Conformance Auditing Guide (Guide) published by the Los Angeles County Metropolitan Transportation Authority (LACMTA), the Memorandum of Understanding for Proposition 1B Transit Security Bridge Funding, Public Transportation Modernization, Improvement, and Service Enhancement Account Guidelines (PTMISEA), and Proposition 1B Transit Modernization Bridge Funding by and between LACMTA, that could have a direct and material effect on the TDA and Proposition 1B programs for the year ended June 30, 2012. The accompanying schedule of PTMISEA Funds is presented for purposes of additional analysis as required by the TDA, per PUC 99245 and is not a required part of the basic financial statements.



The Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

Internal Control Over Compliance

Management of Foothill Transit is responsible for establishing and maintaining effective internal control over compliance with the Transportation Development Act (TDA) Conformance Auditing Guide (Guide) published by the Los Angeles County Metropolitan Transportation Authority (LACMTA), the Memorandum of Understanding for Proposition 1B Transit Security Bridge Funding, Public Transportation Modernization, Improvement, and Service Enhancement Account Guidelines (PTMISEA), and Proposition 1B Transit Modernization Bridge Funding by and between LACMTA. In planning and performing our audit, we considered Foothill Transit's internal control over compliance with the requirements that could have a direct and material effect on Foothill Transit's compliance with the requirements to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements referred to above on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with the requirements referred to above will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, the Board of Directors and Los Angeles County Metropolitan Transportation Authority and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Lughard, LLP

Brea, California
September 19, 2012

**FOOTHILL TRANSIT
(A Joint Powers Authority)**

**SCHEDULE OF PTMISEA FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>RECEIPTS</u>	<u>PROGRAM INCOME</u>	<u>EXPENSES</u>	<u>UNEARNED REVENUE</u>	<u>RECEIVABLE JUNE 30, 2012</u>
\$ 5,113,909	\$ 45,997	\$ 120,997	\$ 5,038,909	\$ 8,508

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON FOOTHILL TRANSIT'S COMPLIANCE
WITH PROPOSITION A AND PROPOSITION C DISCRETIONARY PROGRAMS AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE PROPOSITION A AND
PROPOSITION C DISCRETIONARY PROGRAMS

The Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

Compliance

We have audited the Foothill Transit Authority, California's compliance with the types of compliance requirements described in the Proposition A and Proposition C Local Return Guidelines and the Memorandums of Understanding for Proposition A 40% Discretionary Grant Funds and Proposition C 5% Transit Security Funds approved by Los Angeles County Metropolitan Transportation Authority (LACMTA), that could have a direct and material effect on Foothill Transit's compliance with Proposition A and Proposition C Discretionary programs for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of Foothill Transit's management. Our responsibility is to express an opinion on Foothill Transit's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above that could have a direct and material effect on the Proposition A and Proposition C programs occurred. An audit includes examining, on a test basis, evidence about the compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the compliance with those requirements.

In our opinion, Foothill Transit complied, in all material respects, with the compliance requirements of the Proposition A and Proposition C Local Return Guidelines and the Memorandums of Understanding for Proposition A 40% Discretionary Grant Funds and Proposition C 5% Transit Security Funds approved by Los Angeles County Metropolitan Transportation Authority (LACMTA), that could have a direct and material effect on the Proposition A and Proposition C Discretionary programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Foothill Transit is responsible for establishing and maintaining effective internal control over compliance with the requirements of the Proposition A and Proposition C Local Return Guidelines and the Memorandums of Understanding for Proposition A 40% Discretionary Grant Funds and Proposition C 5% Transit Security Funds approved by Los Angeles County Metropolitan Transportation Authority (LACMTA). In planning and performing our audit, we considered the Foothill Transit's internal control over compliance with the requirements that could have a direct and material effect on Foothill



The Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

Transit's compliance with the requirements to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Foothill Transit's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements referred to above on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with the requirements referred to above will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in the internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use management, the Board of Directors and Los Angeles County Metropolitan Transportation Authority and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Loughard, LLP

Brea, California
September 19, 2012



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON FOOTHILL TRANSIT'S COMPLIANCE
WITH THE MEASURE R PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE MEASURE R PROGRAM

The Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

Compliance

We have audited the Foothill Transit Authority, California's compliance with the types of compliance requirements described in Measure R Local Return Guidelines issued by Los Angeles County Metropolitan Transportation Authority (LACMTA) and the Memorandum of Understanding Article 4 – Audit and Reporting Requirements by and between LACMTA, that could have a direct and material effect on Foothill Transit's compliance with Measure R Program for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of Foothill Transit's management. Our responsibility is to express an opinion on Foothill Transit's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Measure R program occurred. An audit includes examining, on a test basis, evidence about Foothill Transit's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Foothill Transit's compliance with those requirements.

In our opinion, Foothill Transit complied, in all material respects, with the compliance requirements of the Measure R Local Return Guidelines issued by Los Angeles County Metropolitan Transportation Authority (LACMTA) and the Memorandum of Understanding Article 4 – Audit and Reporting Requirements by and between LACMTA, that could have a direct and material effect on the Measure R program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Foothill Transit is responsible for establishing and maintaining effective internal control over compliance with the requirements described in Measure R Local Return Guidelines issued by Los Angeles County Metropolitan Transportation Authority (LACMTA) and the Memorandum of Understanding Article 4 – Audit and Reporting Requirements by and between LACMTA. In planning and performing our audit, we considered Foothill Transit's internal control over compliance with the requirements that could have a direct and material effect on Foothill Transit's compliance with the requirements to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Foothill Transit's internal control over compliance.



The Board of Directors
Foothill Transit (A Joint Powers Authority)
West Covina, California

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements referred to above on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with the requirements referred to above will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, the Board of Directors and Los Angeles County Metropolitan Transportation Authority and is not intended to be and should not be used by anyone other than these specified parties.

Lane, Soll & Luyhard, LLP

Brea, California
September 19, 2012

